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## EMPLOYEES' CHOICE OF METHOD OF PAY: What Happens When a Firm Sets Each Employees' Total Pay But Offers All Employees Total Choice Over the Mix of Base, Bonus, and Stock Options?

### Abstract:

Who chooses what type of pay? The costs and benefits of “flexible” and “cafeteria-style” benefit plans have been discussed for some time. Additionally, and more specifically, many papers have considered the potential costs and benefits of certain types of pay plans (e.g. salaries versus piece rates). In this paper, I use detailed data from a specific firm that did something extremely unusual. The firm offered *all* employees *complete* choice over the fraction of their pay that was contingent (options, bonus) versus guaranteed (salary). The firm set the level of “total compensation” for each worker and then gave employees exchange rates for trading base pay for bonus units and stock options. Very preliminary results reveal some interesting findings. There is substantial variation in the choice of contingent pay with some workers choosing almost all base pay and others choosing all options. Older workers are relatively less likely to choose options than guaranteed base pay. Finally, women are substantially less likely to choose at-risk (options) pay than men, and more highly-paid workers are substantially more likely to choose at-risk pay; even after controlling for a host of characteristics including age, job position, and division within the firm.